

## Message Text

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ACTION L-03

INFO OCT-01 EUR-25 ISO-00 ABF-01 OMB-01 TRSE-00 FCSC-01

EB-11 COME-00 PM-07 JUSE-00 SS-20 NSC-10 SSO-00

NSCE-00 USIE-00 CIAE-00 DODE-00 INR-10 NSAE-00 PA-04

RSC-01 PRS-01 SPC-03 DRC-01 INRE-00 /100 W

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FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC IMMEDIATE 5273

C O N F I D E N T I A L PRAGUE 2450

E.O. 11652: GDS

TAGS: PFOR, EFIN, L/C, CZ

SUBJECT: CLAIMS NEGOTIATIONS--SESSION 11

REF: PRAGUE 2365

1. BEGIN SUMMARY. CLAIMS NEGOTIATIONS RESUMED OCTOBER 15 AT CZECH REQUEST AND IN IMPROVED ATMOSPHERE. CZECH DELEGATION MADE PROPOSALS ON TERMS OF PAYMENT OF LUMP SUM, RELATIONSHIP OF AGREEMENT TO MFN, AND SURPLUS PROPERTY DEBT AND SUGGESTED THAT DELEGATIONS BEGIN WORK ON FORMULATION OF TEXTS OF PORTIONS OF AGREEMENT WHICH HAVE ALREADY BEEN SETTLED. US DELEGATION RESERVED SUBSTANTIVE COMMENT ON MAJORITY OF CZECH PROPOSALS UNTIL IT RECEIVED INSTRUCTION FROM DEPARTMENT. END SUMMARY.

2. AT CZECH INITIATIVE AND AFTER SEVERAL DELAYS DUE TO (NON-DIPLOMATIC) ILLNESS OF HEAD OF CZECH DELEGATION (ZANTOVSKY), CLAIMS NEGOTIATIONS RESUMED OCTOBER 15 AT CERNIN PALACE. AS PROMISED, ZANTOVSKY SAID CZECH DELEGATION WOULD DISCUSS OTHER ELEMENTS OF AGREEMENT AND RETURN TO LUMP-SUM ONLY AT LATER STAGE. ATMOSPHERE OF MEETING WAS CONSTRUCTIVE AND CZECHS GAVE IMPRESSION OF BEING READY NOW TO MOVE ON TO AGREEMENT.

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3. ZANTOVSKY TABLED CZECH PROPOSAL THAT AGREEMENT SPECIFY

THAT LUMP SUM BE PAID IN FIFTEEN YEARS WITH PROVISION THAT, AFTER RECEIPT OF MFN STATUS, CZECHS WOULD MAKE ANNUAL PAYMENTS EQUAL TO FOUR TO FIVE PERCENT OF ANNUAL CZECH EXPORTS TO US. ACCORDING TO ZANTOVSKY, THIS ACCELERATOR CLAUSE WOULD, IN VIEW OF PROSPECTS FOR INCREASING US-CSSR TRADE, RESULT IN LUMP SUM BEING PAID OFF IN APPROXIMATELY TEN YEARS. CHIEF OF US DELEGATION (WORTZEL) SAID THAT HE WOULD DEFER COMMENT UNTIL HE HAD PENDING INSTRUCTIONS ON SUBJECT FROM DEPARTMENT.

4. CONCERNING RELATIONSHIP BETWEEN CLAIMS AGREEMENT AND MFA, ZANTOVSKY PROPOSED THAT CZECHS BE GIVEN RIGHT TO REVIEW AGREEMENT JUST PRIOR TO MAKING THEIR SECOND PAYMENT ON LUMP SUM AND IF THEY HAVE NOT RECEIVED MFN BY THAT TIME, THEY WOULD BE ENTITLED TO SUSPEND FURTHER PAYMENTS UNTIL THEY DO RECEIVE MFN. THIS AGREEMENT COULD BE CONCLUDED IN SEPARATE EXCHANGE OF LETTERS OF ANOTHER ACCEPTABLE FORM. US DELEGATION SAID THAT IT WOULD REPORT PROPOSAL TO DEPARTMENT.

5. ON SUBJECT OF RETURN OF CZECH GOLD ZANTOVSKY PROPOSED THAT AGREEMENT ENTER INTO FORCE WHEN CZECHS ACTUALLY RECEIVE GOLD. SUCH A PROVISION WAS INCLUDED IN 1964 AGREEMENT (ARTICLE VII), ZANTOVSKY SAID, AND SHOULD BE INCLUDED IN PRESENT AGREEMENT. WORTZEL NOTED THAT ACTUAL RETURN OF GOLD WAS NOT WITHIN AUTHORITY OF USG BUT THAT WE UNDERSTOOD THAT NEITHER FRANCE NOR UK NOW OPPOSED DELIVERY. WITH WITHDRAWAL OF US OBJECTION, AS PROPOSED BY US, COMMISSION WOULD, WE ASSUMED, DELIVER GOLD TO CZECHS WITHIN MATTER OF WEEKS. HE QUESTIONED DESIRABILITY OF RAISING ISSUE OF ACTUAL RETURN IN AGREEMENT.

6. RETURNING TO SETTLEMENT OF SURPOLUS PROPERTY DEBT, ZANTOVSKY SAID THAT CZECHS WOULD PAY \$4.9 MILLION PRINCIPAL AND WOULD LIKE TO PAY IT IN CROWNS BUT THAT CZECHOSLOVAKIA DOES NOT INTEND TO PAY INTEREST BECAUSE US VIOLATED ORIGINAL AGREEMENT BY WITHDRAWING OFFER OF FURTHER SALES. HE ALSO STATED, HOWEVER THAT CZECH POSITION ON THIS ISSUE WAS NOT FINAL. IN LATER INFORMAL CONVERSATION IN WHICH WORTZEL SAID THAT BOTH PRINCIPAL AND INTEREST WOULD HAVE TO BE PAID, ZANTOVSKY SAID THAT CZECH PROPOSAL WAS NOT SERIOUS POSITION AND SOLICITED US OFFER FOR CROWN REPAYMENT.

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7.  
ON QUESTION OF LOSSES SUFFERED BY CZECHS IN AUGSTEIN/ZIVNOSTENSKA CASE AND BY REFUSAL OF US TO GRANT EXPORT LICENSES FOR \$700,000 OF MACHINERY, ZANTOVSKY OFFERED WHAT HE TERMED A COMPROMISE BUT NOT A FINAL POSITION: CZECHS WOULD ACCEPT COMPENSATION FOR 40 PERCENT OF AMOUNT OF LOSS. IN RESPONSE WORTZEL SAID THAT BECAUSE THESE TWO

ISSUED INVOLVED MATTERS OF PRINCIPLE ON WHICH USG COULD NOT COMPROMISE, US WOULD NOT ACCEPT EVEN PERCENTAGE SETTLEMENT.

8. AT CONCLUSION OF SESSION ZANTOVSKY SAID THAT HE BELIEVED THAT TIME HAD COME TO BEGIN WORKING ON TEXTS OF PORTIONS OF AGREEMENT ALREADY SETTLED AND THAT CZECH DELEGATION WAS READY TO PREPARE TEXTS FOR THOSE AGREEMENTS AND SUGGESTED THAT IT WOULD BE USEFUL IF US DELEGATION WOULD DO THE SAME. IN THIS CONNECTION, HE ASKED WHEN ASSISTANT LEGAL ADVISOR KWIATEK COULD RETURN TO PRAGUE. US DELEGATION SAID THAT IT HAD NOT PLANNED TO BEGIN ACTUAL DRAFTING PROCESS UNTIL LATER. WORTZEL SAID THAT NO DATE HAD BEEN SET, BUT RATHER THAT KWIATEK WOULD COME BACK AS SOON AS NEGOTIATIONS PROGRESSED TO POINT WHERE HIS PRESENCE WAS REQUIRED.

10. CZECH DELEGATION PROPOSED THAT NEXT SESSION TAKE PLACE ON OCTOBER 17 AT 10:00 A.M. IF US WAS THEN READY TO PRESENT ITS POSITION ON PENDING QUESTIONS (PAYMENT TERMS AND SPA).

11. IN PRIVATE CONVERSATION AT END OF SESSION ZANTOVSKY, IN MOOD OF GRATIFICATION, SAID THAT SITUATION ON HIS SIDE HAD IMPROVED. LEADERSHIP HAD ACCEPTED NECESSITY TO PAY FORTH PERCENT OF ADJUDICATED SUM, AND HE URGED THAT WE MAKE POSSIBLE SYMBOLIC GESTURE OF COMPROMISE BELOW \$31MILLION FIGURE, THAT IS FIGURE CLOSE TO FORTY PERCENT OF \$72.6 MILLION. WITH THIS, AND WITH COMPROMISE ON PAYMENT TERMS AND WITH SPA CROWN PAYMENT, HE SIGNALLED THAT AGREEMENT WAS AVAILABLE.

12. REQUEST INSTRUCTIONS AS TO WHETHER WE SHOULD PASS TO CZECHS ANY OF US DRAFT LANGUAGE AND, IF SO, WHICH PORTIONS AND/OR VERSIONS.

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## Message Attributes

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